

The Spending Chain

The Spending Chain Defined: The spending chain refers to the accounting steps followed to track the ordering, receiving, and paying for the goods and services used in Government programs. As these various activities take place, accounting entries must be made to the general ledger to track the status of the transaction and to ensure the proper use of budgetary resources. In the Federal government, the spending chain begins with undelivered orders, becomes expended authority as the goods and services are received, is recorded as accounts payable, and becomes disbursements when invoices are paid. The accounting steps vary in the spending chain depending on how the goods and services are ordered and received. Some examples of spending chains include:

| Examples of Transaction Types | Spending Chain |
|---|--|
| Contracts and Purchase Orders | Obligation....Receiving...Invoice...Disbursement |
| Credit Card, Relocation, Utilities, Telephone, Lease Payments | Obligation..... Invoice...Disbursement |
| Payroll, Travel | Obligation.....Disbursement |

Recording the Spending Chain using the Standard General Ledger: The steps in the spending chain (obligating, receiving, and paying for goods and services) are monitored by recording accounting transactions in general ledger accounts. The U.S. Standard General Ledger (SGL) provides a uniform chart of accounts for Federal agencies. The SGL is composed of two self-balancing sets of accounts: proprietary accounts and budgetary accounts. Budgetary Accounts are used to track and control budgetary resources, and record the status of budgetary resources. Appropriations, apportioned authority, allocated funds, and obligations are recorded using budgetary accounts. Proprietary Accounts are used to determine the financial condition of the fund; account for the assets, liabilities, and equity of the fund; and to determine the fund's net position. Proprietary accounts record assets (such as cash, accounts receivable, equipment, etc.), liabilities (such as accounts payable), fund equity, revenue, and expenses.

Obligations are monitored by entering transactions in budgetary general ledger accounts. As goods and services are received and paid, additional accounting entries are recorded in proprietary general ledger accounts.

Spending Chain Example: The following example illustrates a simple spending chain. This example assumes an agency had previously posted budgetary entries to record the receipt of an appropriation, the OMB apportionment, and the allocation and allotment of funds to program units. It also assumes the Treasury warrant had been recorded in the proprietary accounts (the cash account and the appropriated capital account). The account numbers used in the example are SGL budgetary and proprietary account numbers.

Exhibit 5-3

1. An agency issues a purchase order for supplies in the amount of \$100.00. The agency records an undelivered order which reduces an allotment of funds:

| | | | |
|--------|------|---------------------------------|----------|
| Debit | 4610 | Allotments – Realized Resources | \$100.00 |
| Credit | 4801 | Undelivered Orders – Unpaid | \$100.00 |

Budgetary Entry:¹

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|---------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn 1. | | 100 | (100) | | |
| End Bal | 1000 | (900) | (100) | | |

2. The agency receives the supplies where:

a. The amount of the supplies received is the same as the purchase order

| | | | |
|--------|------|-----------------------------|----------|
| Debit | 4801 | Undelivered Orders – Unpaid | \$100.00 |
| Credit | 4901 | Expended Authority – Unpaid | \$100.00 |

Budgetary Entry:

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|---------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn 1. | | 100 | (100) | | |
| Trn 2a. | | | 100 | (100) | |
| End Bal | 1000 | (900) | 0 | (100) | |

¹ The Budgetary Equation is: Budgetary Resources equal the Status of Budgetary Resources. This means that the total balance of the budgetary resource accounts is offset by the total balance of the status of budgetary resource accounts.

Exhibit 5-3

b. The amount of the supplies received is less than the purchase order

| | | | |
|--------|------|---------------------------------|----------|
| Debit | 4801 | Undelivered Orders – Unpaid | \$100.00 |
| Credit | 4610 | Allotments – Realized Resources | \$10.00 |
| Credit | 4901 | Expended Authority – Unpaid | \$90.00 |

Budgetary Entry:

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|----------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn. 1 | | 100 | (100) | | |
| Trn. 2b. | | (10) | 100 | (90) | |
| End Bal | 1000 | (910) | 0 | (90) | |

c. The purchase order is canceled

| | | | |
|--------|------|---------------------------------|----------|
| Debit | 4801 | Undelivered Orders – Unpaid | \$100.00 |
| Credit | 4610 | Allotments – Realized Resources | \$100.00 |

Budgetary Entry:

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|---------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn 1. | | 100 | (100) | | |
| Trn 2c. | | (100) | 100 | | |
| End Bal | 1000 | (1000) | 0 | | |

Exhibit 5-3

d. The amount of supplies received is more than the purchase order amount

| | | | |
|--------|------|---------------------------------|----------|
| Debit | 4801 | Undelivered Orders – Unpaid | \$100.00 |
| Debit | 4610 | Allotments – Realized Resources | \$10.00 |
| Credit | 4901 | Expended Authority | \$110.00 |

Budgetary Entry:

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|---------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn 1. | | 100 | (100) | | |
| Trn 2b. | | 10 | 100 | (110) | |
| End Bal | 1000 | (890) | 0 | (110) | |

3. The agency records the invoice received with the supplies (transaction 2a.). The agency must record two proprietary entries for this transaction (note that there are no budgetary entries for this transaction):

a. To record the amount due to the vendor

| | | | |
|--------|------|---------------------------|----------|
| Debit | 6100 | Operating/Program Expense | \$100.00 |
| Credit | 2110 | Accounts Payable | \$100.00 |

b. To record the amount of appropriated capital used to finance the agencies operations

| | | | |
|--------|------|---------------------------|----------|
| Debit | 3100 | Appropriated Capital | \$100.00 |
| Credit | 5700 | Appropriated Capital Used | \$100.00 |

Proprietary Entry:²

| | 1010 (Fund Balance With Treasury) | 2110 (Accounts Payable) | 3100 (Appropriated Capital) | 5700 (Appropriated Capital Used) | 6100 (Operating/ Program Expense) |
|---------|--|--|--|---|--|
| Beg Bal | 1000 | | (1000) | | |
| Trn 3a. | | (100) | | | 100 |
| Trn 3b. | | | 100 | (100) | |
| End Bal | 1000 | (100) | (900) | (100) | 100 |

4. The agency pays the vendor according to the terms of the invoice:

| | | | |
|--------|------|----------------------------|----------|
| Debit | 2110 | Accounts Payable | \$100.00 |
| Credit | 1010 | Fund Balance With Treasury | \$100.00 |

Proprietary Entry:

| | 1010 (Fund Balance With Treasury) | 2110 (Accounts Payable) | 3100 (Appropriated Capital) | 5700 (Appropriated Capital Used) | 6100 (Operating/ Program Expense) |
|---------|--|--|--|---|--|
| Beg Bal | 1000 | | (1000) | | |
| Trn 3a. | | (100) | | | 100 |
| Trn 3b. | | | 100 | (100) | |
| Trn 4. | (100) | 100 | | | |
| End Bal | 900 | 0 | (900) | (100) | 100 |

5. At the same time the agency disburses funds (through Treasury) to the vendor, the agency reclassifies the expended authority from unpaid to paid:

| | | | |
|--------|------|-----------------------------|----------|
| Debit | 4901 | Expended Authority – Unpaid | \$100.00 |
| Credit | 4902 | Expended Authority – Paid | \$100.00 |

² The Accounting Equation for Proprietary Accounts is Assets equal Liabilities and Equity.

Exhibit 5-3**Budgetary Entry:**

| | 4119 (Appropriations) | 4610 (Allotments) | 4801 (Undelivered Orders- Unpaid) | 4901 (Expended Authority- Unpaid) | 4902 (Expended Authority- Paid) |
|---------|----------------------------------|------------------------------|--|--|--|
| Beg Bal | 1000 | (1000) | | | |
| Trn 1. | | 100 | (100) | | |
| Trn 2a. | | | 100 | (100) | |
| Trn 5. | | | | 100 | (100) |
| End Bal | 1000 | (900) | 0 | 0 | (100) |